Report

of the

Examination of

Unimerica Insurance Company

Minnetonka, Minnesota

As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 24, 2003

Honorable Alfred W. Gross
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Committee, NAIC
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Commissioner of Insurance
State of Connecticut
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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

UNIMERICA INSURANCE COMPANY
Minnetonka, Minnesota

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1997, as of December 31, 1996, by the Maryland Department of Insurance. The current examination covered the intervening period ending December 31, 2002, and included a review of 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Territory and Plan of Operations

Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Unimerica Insurance Company (Unimerica or the company), was organized in 1980 under the laws of Iowa under the name, Principal Life Insurance Company. It was formed as a subsidiary of the Principal Mutual Life Insurance Company of Iowa. The company was purchased by DBP Ventures, Inc., a Maryland corporation, on November 20, 1996. DBP Ventures, Inc., a subsidiary of Dental Benefit Providers, Inc., was formed to acquire Principal Life Insurance Company.

On December 20, 1996, the company amended its articles of incorporation to redomicile from Iowa to Maryland and to change the name of the company to Dental Insurance Company of America, Inc. (DICA). Subsequent to the redomestication, the company voluntarily surrendered its certificate of authority in Iowa, because it did not intend to operate in Iowa under the business plan of that time. DBP Ventures, Inc. merged into its parent, Dental Benefit Providers Inc., effective January 1, 1997, thereby making Dental Benefit Providers, Inc., the new parent company of DICA. On June 2, 1999, United HealthCare Services, Inc., a wholly owned subsidiary of UnitedHealth Group, Incorporated, purchased an 80% interest in Dental Benefit Providers, Inc., and all of its affiliate companies, including DICA. Dental Benefit Providers, Inc., continued to manage DICA and used it to underwrite some of its dental business, principally the business of one large customer. Effective November 8, 2000, the company changed its name in anticipation of expanding its product offerings beyond the group dental business to include medical stop loss and group life. On February 28, 2001, Specialized Care Services, Inc., a wholly owned subsidiary of United HealthCare Services, Inc. purchased Unimerica. On July 31, 2002, United HealthCare Services, Inc., acquired the remaining 20% ownership interest in Dental Benefit Providers, Inc. The company’s management and financial functions were transitioned to Minnesota from Maryland in the third quarter of 2002. Effective October 16, 2002, the company’s request to redomesticate from Maryland to Wisconsin was approved.

On May 5, 2003, the Wisconsin Office of the Commissioner of Insurance (OCI), approved a plan to merge Spectera Insurance Company (Maryland) and Stop-Loss Life Reinsurance Company (Arizona) with and into Unimerica, with Unimerica being the sole survivor in both instances. The merger plan remains pending before the states of Arizona and Maryland and has not been consummated.

For the year ending December 31, 2002, the company wrote direct premium of $620,406 in the state of Maryland. The only product marketed by the company at year-end 2002 was a dental plan. Starting in 2003, the company is also marketing stop-loss medical insurance for self-funded employers and has plans to market life policies. The major products are marketed through employees of United HealthCare Services, Inc., brokers, and consultants.

The following chart is a summary of the net premium income for 2002, as reported in the company's annual statement Exhibit 1, Part 1. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Accident and health	$620,406	$0	$0	$620,406

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

All of the directors are employees of United HealthCare Services, Inc. (UHS), and hold the principal titles with subsidiaries of UHS shown below. Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Thomas E. Burton South Windsor, CT	Senior Vice President and Chief Actuary United HealthCare Insurance Company	2004
Ronald B. Colby Plymouth, MN	President and Chief Executive Officer United HealthCare Insurance Company	2004
Paul H. Gulstrand Eden Prairie, MN	Chief Executive Officer Unimerica Workplace Benefits	2004
David T. Hall Baltimore, MD	Chief Executive Officer Spectera Inc.	2004
Mark L. Helvick Corcoran, MN	Vice President, Chief Financial Officer, and Treasurer National Benefit Resources, Inc.	2004
Ted A. Lyle Woodbury, MN	Chief Actuarial Officer Specialized Care Services, Inc.	2004
Joseph J. McErlane Edina, MN	President and Chief Executive Officer National Benefit Resources, Inc.	2004
Richard J. Migliori, M.D. Orono, MN	Chief Executive Officer United Resource Networks	2004
David S. Wichmann Burnsville, MN	President and Chief Operating Officer Specialized Care Services, Inc.	2004

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	Compensation
Ronald B. Colby	President and Chief Executive Officer	$0*
David T. Hall	Vice President	0*
Ted A. Lyle	Vice President	0*
Joseph J. McErlane	Vice President	0*
Richard J. Migliori, M.D.	Vice President	0*
George L. Mikan, III	Treasurer	0*
Timothy F. Ryan	Secretary	0*
David S. Wichmann	Senior Vice President	0*

*All officers are employees of United Health Services, Inc., and compensation is paid through United Health Services, Inc. See Summary of Examination Results for more information.

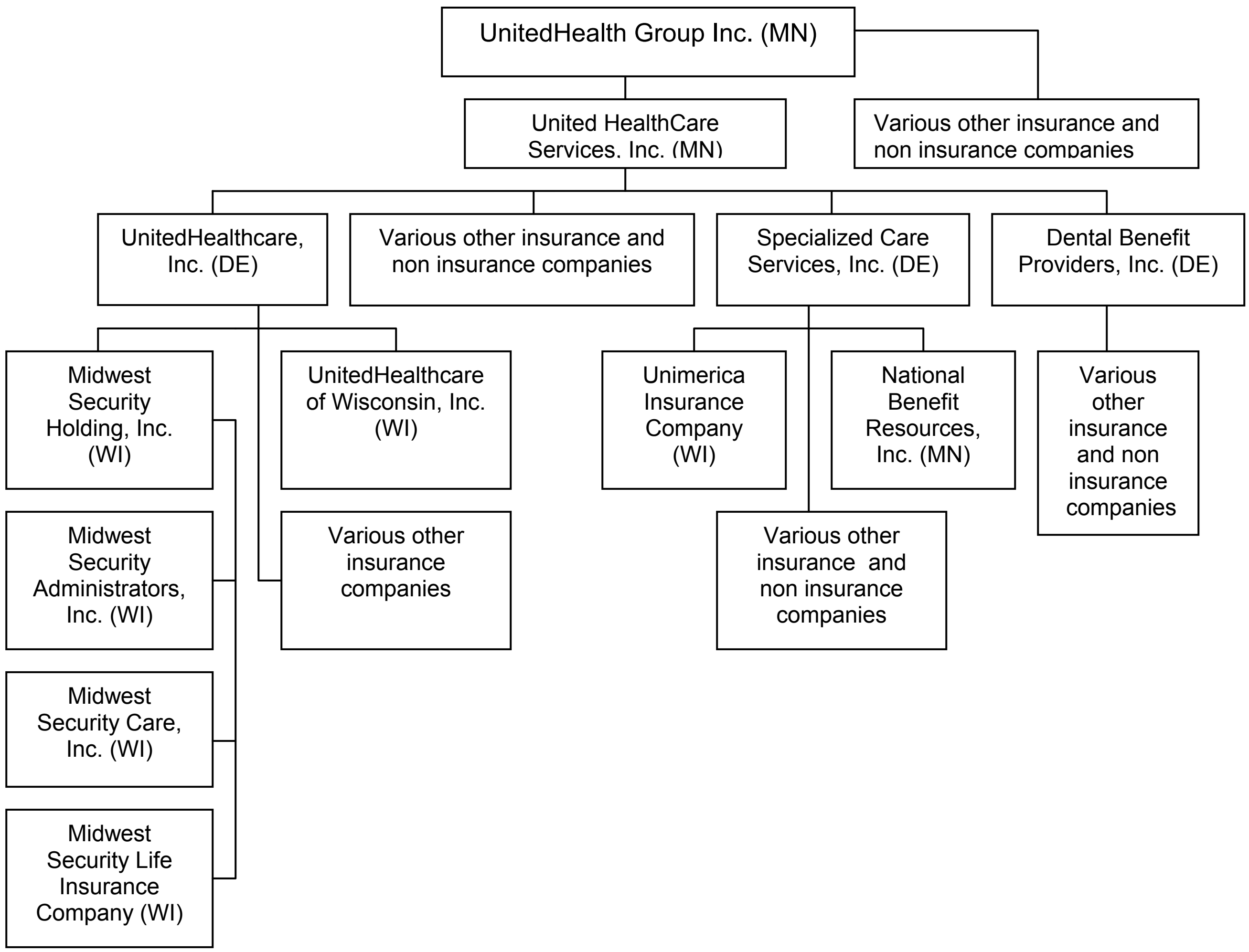
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no active committees at the time of the examination.

IV. AFFILIATED COMPANIES

Unimerica Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among selected affiliates in the group. A brief description of the significant affiliates of Unimerica follows the organizational chart.

Organizational Chart
As of December 31, 2002



UnitedHealth Group, Incorporated

UnitedHealth Group, Incorporated (UHG) is a holding company with subsidiaries that provide a comprehensive and diversified array of health and well being services through five operating business segments. As of December 31, 2002, UHG's audited financial statement reported assets of $14.2 billion, liabilities of $9.8 billion, and shareholder's equity of $4.4 billion. Operations for 2002 produced net income of $1.35 billion on total revenues of $25.0 billion. UHG is traded over the New York Stock Exchange under the symbol "UNH".

United HealthCare Services, Incorporated

United HealthCare Services, Inc. (UHS), is the employer for all personnel who provide services to UHG and its subsidiaries. It is a direct subsidiary of UHG and functions as an intermediate holding company for all of the other subsidiaries of UHG. As of December 31, 2002, the company's audited financial statement reported assets of $13.0 billion, liabilities of $8.3 billion, and shareholders' equity of $4.7 billion. For 2002, UHS reported net income of $1.3 billion on total revenue of $24.4 billion.

Specialized Care Services, Incorporated

Specialized Care Services, Inc. (SCS), functions as a holding company and accounting center for a comprehensive array of specialized services within UHG, including, but not limited to, vision care benefits and life and accident insurance. SCS does not have a contractual relationship with Unimerica, and would not receive payments from Unimerica in the ordinary course of business, other than in the form of dividends and other distributions. As of December 31, 2002, SCS's unaudited financial statement reported assets of $272.8 million, liabilities of $42.2 million, shareholders' equity of $230.6 million, and total revenue of $208.9 million.

Dental Benefit Providers, Incorporated

Dental Benefit Providers, Inc. (DBP), and its affiliates provide management services for dental care benefits. Through an extensive relationship with contracted dental providers, DBP and its affiliates manage dental benefit offerings for approximately three million individuals. As of December 31, 2002, DBP's unaudited financial statement reported assets of $164.9 million, liabilities of $30.7 million, shareholder's equity of $134.2 million, and total revenue of $140.3 million.

National Benefit Resources, Incorporated

National Benefit Resources, Inc. (NBR), is a managing general underwriter that originates and administers medical stop loss insurance provided to employers with self-funded employee benefit plans. As of December 31, 2002, NBR's unaudited financial statement reported assets of $63.5 million, liabilities of $9.6 million, shareholder's equity of $53.9 million, and total revenue of $30.3 million.

Affiliated Agreements

Unimerica has a First Restated Tax Sharing Agreement with United HealthCare Corporation and each subsidiary included in its consolidated federal income tax return effective January 1, 1997.

There is a Cost Reimbursement Agreement with United HealthCare Services, Inc., effective January 1, 2002. Under this agreement, UHS agrees to provide Unimerica with personnel and office space, furniture, and equipment. For these services, Unimerica is to reimburse UHS for all costs it incurs in the provision of services to Unimerica, and the amount of expenses associated with or attributable to the business and operations of Unimerica, as defined by customary insurance accounting practices consistently applied. This agreement was amended effective September 1, 2002, to clarify time frames for billing and payment.

Unimerica has a Managing General Agent Agreement with National Benefit Resources, Inc. (NBR), effective January 1, 2002. Under this agreement, NBR is to provide services to Unimerica related to medical and life products including, but not limited to: product design, marketing, underwriting, premium collection and processing, processing commissions, computation of tax data, issuance of policies, renewals and amendments, and medical claim processing. This agreement was amended September 1, 2002, to establish that Unimerica would reimburse NBR for the actual costs incurred by NBR in providing services to Unimerica.

There is a General Agent and Services Agreement with Dental Benefit Providers, Inc. (DBP), effective January 1, 2002. Under this agreement, DBP provides resources to Unimerica for the operation of dental benefit plans and services. Services encompass nearly every task necessary to provide dental products. This agreement was amended September 1, 2002, to establish that compensation would be limited to reimbursement of actual costs incurred by DBP in providing services to Unimerica.

V. REINSURANCE

The company's current reinsurance portfolio and strategy are described below. The contracts contained proper insolvency provisions.

Ceding Contracts

Unimerica Insurance Company has a Quota Share Specific and Aggregate Stop Loss Agreement with Everest Reinsurance Company effective October 1, 2000, as amended effective October 1, 2002. The contract covers stop-loss medical insurance for self-funded employers. Coverage for specific stop loss is 55% of the first $1,000,000 in liability per person, per year, and 100% of all liability in excess of $1,000,000 up to a maximum of $5,000,000 per person, per year. Coverage for aggregate stop loss is 55% of the first $2,000,000 in liability per employer, per year in excess of a minimum retention of the self-funded plan’s deductible of 120% of expected original claims cost. Reinsurance in excess of $2,000,000 and less than $5,000,000 per employer, per year may be placed on a facultative basis, subject to approval by the reinsurer.

Unimerica Insurance Company has a Quota Share Specific and Aggregate Stop Loss Agreement with Monumental Life Insurance Company effective October 1, 2000, as amended effective October 1, 2002. The contract covers stop-loss medical insurance for self-funded employers. Coverage for specific stop loss is 5% of the first $1,000,000 in liability per person, per year, and 100% of all liability in excess of $1,000,000 up to a maximum of $5,000,000 per person, per year. Coverage for aggregate stop loss is 5% of the first $2,000,000 in liability per employer, per year in excess the minimum retention of the self-funded plan’s deductible of 120% of expected original claims cost. Reinsurance in excess of $2,000,000 and less than $5,000,000 per employer, per year may be placed on a facultative basis, subject to approval by the reinsurer.

The combined result of these reinsurance coverages is that Unimerica’s maximum specific exposure per person is $400,000 and maximum aggregate exposure is $800,000 per employer. As of the date of this examination, the company has not used either of these contracts since the company has not written any of the insurance to date which is subject to this reinsurance.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also, included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Unimerica Insurance Company
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 324,770	$0	$ 324,770
Cash	(34,811)	0	(34,811)
Short-term investments	9,908,752	0	9,908,752
Investment income due and accrued	32,916	0	32,916
Total Assets	$10,231,627	$0	$10,231,627

Unimerica Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Contract claims:		
Accident and health	$ 46,094	
Contract liabilities not included elsewhere:		
Interest maintenance reserve	9,395	
General expenses due or accrued	4,296	
Federal and foreign income taxes	171,734	
Miscellaneous liabilities:		
Asset valuation reserve	5,806	
Payable to parent, subsidiaries and affiliates	475,476	
Total Liabilities		$ 712,801
Common capital stock	2,600,000	
Gross paid in and contributed surplus	6,549,480	
Unassigned funds (surplus)	369,346	
Total Capital and Surplus		9,518,826
Total Liabilities, Capital and Surplus		$10,231,627

Unimerica Insurance Company
Summary of Operations
For the Year 2002

Premiums and annuity considerations for life and accident and health contracts	$620,406	
Net investment income	129,534	
Amortization of interest maintenance reserve	5,125	
Total income items		$755,065
Disability benefits and benefits under accident and health contracts	302,467	
Subtotal	302,467	
General insurance expenses	182,763	
Insurance taxes, licenses, and fees excluding federal income taxes	81,167	
Total deductions		566,397
Net gain from operations after dividends to policyholders and before federal income taxes		188,668
Federal income taxes incurred (excluding tax on capital gains)		64,344
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)		124,324
Net Income (Loss)		$124,324

Unimerica Insurance Company
Cash Flow
As of December 31, 2002

Premiums and annuity considerations for life and accident and health contracts		$620,406	
Net investment income		65,267	
Total			$685,673
Disability benefits and benefits under accident and health contracts	$312,945		
Subtotal		312,945	
General insurance expenses	178,467		
Insurance taxes, licenses and fees, excluding federal income taxes	96,467		
Subtotal		274,934	
Federal income taxes (excluding tax on capital gains)		7,812	
Total deductions			595,691
Net cash from operations			89,982
Proceeds from investments sold, matured, or repaid:			
Bonds	3,563,942		
Net gains or (losses) on cash and short-term investments	(1,160)		
Total		3,562,782	
Less: Cost of investments acquired (long-term only):			
Bonds	1,898,358		
Total investments acquired		1,898,358	
Net cash from investments			1,664,424
Cash provided from financing and miscellaneous sources:			
Surplus notes, capital and surplus paid in	4,000,000		
Other cash provided	478,387		
Total		4,478,387	
Cash applied for financing and miscellaneous uses:			
Other applications	(85,530)		
Total		(85,530)	
Net cash from financing and miscellaneous sources			4,563,917
Net change in cash and short-term investments			6,318,323
Reconciliation			
Cash and short-term investments, December 31, 2001			3,555,618
Cash and short-term investments, December 31, 2002			$9,873,941

Unimerica Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2002

Assets		$10,231,627	
Less liabilities		712,801	
Adjusted surplus			$9,518,826
Less amount of foreign investments in excess of basket clause			3,927,180
Adjusted surplus per examination			5,591,646
Annual premium:			
Group life and health	$620,406		
Factor	10%		
Total		62,041	
Compulsory surplus (subject to a $2,000,000 minimum)			2,000,000
Compulsory surplus excess or (deficit)			$3,591,646

Adjusted surplus per examination	$5,591,646
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%)	2,800,000
Security surplus excess or (deficit)	$2,791,646

Unimerica Insurance Company
Reconciliation and Analysis of Surplus
For the Five Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the last five years under examination as reported by the company in its filed annual statements:

	1998	1999	2000	2001	2002
Capital and surplus, beginning of year	$1,935,971	$5,210,082	$5,210,653	$5,211,456	$5,307,689
Net income	594	571	803	256,727	124,324
Change in non-admitted assets and related items				(160,494)	160,494
Change in asset valuation reserve					(5,806)
Capital changes:					
Transferred from surplus	1,600,000				
Surplus adjustments:					
Paid in	3,273,517				4,000,000
Transferred to capital	(1,600,000)				
Write-ins for gains and (losses) in surplus:					
Prior Period Adjustment					(67,874)
Capital and surplus, end of year	$5,210,082	$5,210,653	$5,211,456	$5,307,689	$9,518,827

Unimerica Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2002

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the last five years under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1998	1999	2000	2001	2002
#1	Net change in capital & surplus	0.0%	0.0%	0.0%	2.0%	4.0%
#2	Gross change capital & surplus	169.0*	0.0	0.0	2.0	79.0*
#3	Net income to total income	0.0*	0.0*	0.0*	29.0	16.0
#4	Comm and Exp to Prem and Deposits	Discontinued				
#5	Adequacy of investment income	999.0*	999.0*	0.0	0.0	0.0
#6	Non-admitted to admitted assets	0.0	0.0	0.0	3.0	0.0
#7	Total real estate & mortgage loans to cash & invested assets	0.0	0.0	0.0	0.0	0.0
#8	Total affl investments to capital & surplus	0.0	0.0	0.0	0.0	0.0
#9	Surplus relief	0.0	0.0	0.0	0.0	0.0
#10	Change in premium	44.0	7.0	2.0	(96.0)*	(1.0)
#11	Change in product mix	10.0*	0.0	0.0	0.0	0.0
#12	Change in asset mix	10.0*	0.0	0.3	4.8	4.6
#13	Change in reserving ratio	0.0	0.0	0.0	0.0	0.0

The exceptional results in 1998 and 2002 for Ratio No. 2 were due to significant capital contributions. Ratio No. 3, “Net Income to Total Income” from 1998 to 2000 reflect the low level of net income in those years. Ratio No. 5 compares the net investment income to the increase in reserves from tabular interest. The exceptional results for Ratio No. 5 from 1997 to 1999 were related to the lack of tabular interest during that time, since the company did not write life insurance during the period. The unusual ratio for Ratio No. 9 in 2001 was due to termination of its largest customer’s contract. Ratio No. 10, “Change in Product Mix”, in 1998 was due to the commencement of operations under the current holding company system in 1997. The unusual ratio for Ratio No. 11, “Change in Asset Mix”, in 1998 is attributed to management shifts among cash equivalents and bonds during the year.

Growth of Unimerica Insurance Company

Year	Admitted Assets	Liabilities	Surplus
1998	$5,440,753	$230,671	$5,210,082
1999	5,612,855	402,202	5,210,653
2000	5,376,754	165,298	5,211,456
2001	5,494,784	187,094	5,307,691
2002	10,231,627	712,801	9,518,826

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1998	$13,244,068	$8,815,331	$3,718,260	94.6%
1999	14,182,950	9,480,845	4,912,369	101.5
2000	14,510,388	10,003,533	4,822,453	102.2
2001	628,175	261,564	261,250	83.2
2002	620,406	302,467	263,930	91.3

In the past five years, the company's assets have increased 88.1%. The company has reported net income for each year under review with the largest net income amounts being reported in 2001 and 2002. Since 1998, surplus has increased 82.7%. In 1998 and 2002, the company received $3.2 million and $4 million, respectively paid in capital from its parent. The company's accident and health premium decreased dramatically from 2000 to 2001, due to the company losing its largest policyholder. Because the company is writing less business, its losses and expenses have also decreased which caused a decrease in the company's combined ratio.

Reconciliation of Surplus per Examination

There were no adjustments or reclassifications to surplus as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Due to this being the first examination of the company by the state of Wisconsin, the examination was not reviewed for specific compliance with any prior examination report recommendations.

Summary of Current Examination Results

Management and Control

The examination's review of biographical sketches revealed the company did not file three biographical sketches within 15 days of appointing new officers and directors, in violation of s. Ins 6.52, Wis. Adm. Code. It is recommended that the company file biographical sketches with this office within 15 days of appointing any new officers and directors pursuant to s. Ins 6.52, Wis. Adm. Code.

Executive Compensation

The examination's review of Form OCI 22-040, Report on Executive Compensation for 2002, noted that the form was not completed correctly. The company failed to comply with s. 611.63 (4), Wis, Stats., and did not list the salaries for its directors, the chief financial officer, the four most highly paid employees other than the chief executive officer, and all other employees whose total annual compensation is in excess of $80,000. The company should be reporting all direct or indirect compensation paid and accrued through the year. Insurers that are part of a group of insurers, or a holding company, may file amounts for the total group on a gross basis or by allocation to each insurer. It is recommended that the company properly complete and file Form OCI 22-040, Report on Executive Compensation for 2002, and all subsequent years in accordance with s. 611.63 (4), Wis. Stat.

Reinsurance Contracts

The company's reinsurance agreement with Everest Reinsurance Company includes a "Risk Sharing Refund Agreement" between service providers, such as National Benefit Resources, Inc., and the reinsurer. Under this Risk Sharing Refund Agreement, the insurer's affiliate, NBR would be the recipient of profit sharing from the reinsurer, or would be required to refund a portion of the reinsurance commissions to the reinsurer on a sliding scale in the event that loss experience does not meet mutual expectations as expressed in the contract. In a letter dated October, 10, 2002, OCI disapproved the use of any Risk Sharing Refund Agreement that would cause the underwriting profits or losses of Unimerica to be recorded in the financial statements of affiliates rather than in the financial statements of Unimerica. The use of risk sharing side agreements between the insurer's affiliates and the insurer's reinsurers regarding the experience of the insurer's policies would have the effect of distorting the experience reported on the insurer's annual statements. It is recommended that the company be the only affiliate to participate in any profit-sharing provisions on any reinsurance arrangement with respect to the business it underwrites. It is further recommended that any profit-sharing proceeds paid to, or accrued, or profit sharing expenses incurred by National Benefit Resources, Inc., or any other affiliate on business underwritten by Unimerica Insurance Company since its redomestication to Wisconsin be transferred to Unimerica in full within 90 days following the adoption of this examination report.

Custodial Agreement

The company currently has one custodial agreement with State Street Bank & Trust. State Street Bank & Trust is currently holding the company's special deposits for the State of Ohio. The agreement refers to the Ohio Department of Insurance, that a court in Ohio has exclusive jurisdiction over the agreement. Other than the special deposits with states, the company needs to either take custody of its own investments, or hold them under a custodial agreement with a bank pursuant to s.610.23, Wis. Stats. It is recommended that the company obtain a custodian agreement with a bank for use for its investments not held as special deposits, and submit the agreement to OCI for review for compliance with s. 610.23, Wis. Stat , and the provisions of the NAIC Financial Condition Examiner's Handbook.

Investments

The examination revealed the company had a $4,643,394 investment at year-end in a Nassau Sweep Account. The Nassau Sweep Account is an account in a Citibank Nassau branch. The company has not disclosed it as a foreign bank account in its annual statement and was not adjusted for by the company as a foreign investment in the compulsory surplus calculation. Under s. Ins. 6.20(8) (k), Wis. Adm. Code, foreign investments that may be counted for compulsory and security surplus are limited to 2% of admitted assets, unless they are held in support of foreign business. Since the company has no business in foreign countries that would require the use of foreign bank accounts, the company should reevaluate whether the use of the foreign bank account is warranted. It is recommended that the company complete future compulsory surplus calculations in compliance with s. Ins. 6.20(8) (k), Wis. Adm. Code, regarding the limitation on foreign investments.

Investment Income

A review of the company's annual statement revealed, the company did not properly record investment income that is due, but not yet received on Schedule D, Part 1 and Schedule DA, Part 1. According to the NAIC Annual Statement Instructions – Life, Accident and Health, the company should report all investment income due and accrued on Schedule D, Part 1 and Schedule DA, Part 1. It is recommended that the company fill out Schedule D, Part 1 and Schedule DA, Part 1 to include all interest due and accrued according to the NAIC Annual Statement Instructions – Life, Accident and Health.

Accounts and Records

During the examination, it was noted, when subsequent adjustments are made on a claim, the orginial paid date is changed on the company system to the date that the adjustment was made. The company is implementing a new claim system that should eliminate this problem. It is recommended that pursuant to s. 601.42(3), Wis. Stats., the company revise its claim system so the paid date for the original claim does not change when there is an adjustment made to the that claim.

Affiliated Balances

A review of the company's affiliated balances revealed that balances were not being settled according to the terms of the affiliated agreements. According to the agreements, balances shall be settled on a quarterly basis. However, the company is continuing to carry on its books an outstanding item from January and February of 2002. It is recommended that the company settle outstanding balances with affiliates on at least a quarterly basis in accordance with the company's affiliated agreements.

Disaster Recovery Plan

The company provided a copy of the company's disaster recovery plan dated June of 2001. The plan indicated it would be tested every 18 months, however, it was revealed that this plan has not yet been tested, due to the company moving its IT infrastructure in the fourth quarter of 2002 and the amount of resources used in that process. The company was not able to provide a definitive date as to when the recovery plan would be tested other than within an 18 month time frame. In addition, the plan indicated that updates to the plan would be done as part of the change process. This is a good control to ensure that changes are integrated into the plan in a timely manner, however, there is no formal review process to ensure that all relevant changes are integrated into the IT plan. The functional plans were less detailed than the IT plan and did not identify specific time periods for testing or reviewing the plans. It is recommended that the company establish a formal procedure where its disaster recovery plans are reviewed, updated and tested at least annually. In addition, the review should be above and beyond the company's update process to ensure that all significant changes are incorporated into the plans.

VIII. CONCLUSION

Unimerica Insurance Company redomesticated from Maryland to Wisconsin effective October 16, 2002. At year-end 2002, the company was only marketing a dental plan. In 2003, the company began marketing stop-loss medical insurance for self-funded employers and has plans to market life policies in the future.

As of December 31, 2002, Unimerica Insurance Company's annual statement reported assets of $10.2 million, liabilities of $713,000, and surplus of $9.5 million. Operations for 2002 produced net income of $124,000 on revenues of $620,000. The company has reported net income for the past five years with the largest incomes coming in 2001 and 2002. The company's assets and surplus have increased 88.1% and 82.7% respectively. In 2002, the company's parent company made a $4,000,000 capital contribution. Premium decreased from 2000 to 2001 due to the company losing their largest member.

The examination made no changes to surplus as reported by the company. The examination made an adjustment to the compulsory surplus reported by the company and made recommendations on a variety of issues.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Management and Control—It is recommended that the company file biographical sketches with this office within 15 days of appointing any new officers and directors pursuant to s. Ins. 6.52, Wis. Adm. Code.

2. Page 21 - Executive Compensation—It is recommended that the company complete Form OCI 22-040, Report on Executive Compensation for 2002, and all subsequent years in accordance with its instructions.

3. Page 22 - Reinsurance Contracts—It is recommended that the company be the only affiliate to participate in any profit-sharing provisions on any reinsurance arrangement with respect to the business it underwrites.

4. Page 22 - Reinsurance Contracts—It is further recommended that any profit-sharing proceeds paid to, or profit-sharing expenses incurred by National Benefit Resources, Inc., or any other affiliate on business underwritten by Unimerica Insurance Company since its redomestication to Wisconsin be transferred to Unimerica in full within 90 days following the adoption of this examination report.

5. Page 22 - Custodial Agreement—It is recommended that the company obtain a custodian agreement with a bank for use for their investments not held as special deposits, and submit the agreement to OCI for review for compliance with s. 610.23, Wis. Stat., and the provisions of the NAIC Financial Condition Examiner's Handbook.

6. Page 23 - Investments—It is recommended that the company complete future compulsory surplus calculations in compliance with s. Ins. 6.20(8) (k), Wis. Adm. Code, regarding the limitation on foreign investments.

7. Page 23 - Investment Income—It is recommended that the company fill out Schedule D, Part 1 and Schedule DA, Part 1 to include all interest due and accrued according to the NAIC Annual Statement Instructions – Life, Accident, and Health.

8. Page 23 - Accounts and Records—It is recommended that pursuant to s. 601.42(3) Wis. Stats., the company revise their claim system so the paid date for the original claim does not change when there is an adjustment made to that claim.

9. Page 23 - Affiliated Balances—It is recommended that the company settle balances with affiliates on at least a quarterly basis in accordance with the company's affiliated agreements.

10. Page 24 - Disaster Recovery Plan—It is recommended that the company establish a formal procedure where their disaster recovery plans are reviewed, updated, and tested at least annually. In addition, the review should be above and beyond the company's update process to ensure that all significant changes are incorporated into the plans.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Kerri L. Miller	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner-Advanced

Respectfully submitted,

Sonja M. Dedrick
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

Effective June 18, 2003 and June 30, 2003, the mergers of Stop-Loss Reinsurance Company and Spectera Insurance Company, respectively, with and into Unimerica Insurance Company were approved.